

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 10/28/2013

**GAIN Report Number:** CH13055

## **China - Peoples Republic of**

## **Oilseeds and Products Update**

**Approved By:**

Michael Riedel

**Prepared By:**

M. Melinda Meador and  
WU Xinping

**Report Highlights:**

MY13/14 soybean production is forecast at 11.8 million tons, unchanged from the previous estimate (CH13052). MY13/14 rapeseed and peanut production is forecast at 13.2 million tons and 16 million tons, respectively, unchanged from the September report. Driven by a supply gap between recovering animal husbandry feed demands and estimated falling soybean stocks, soybean imports are forecast to exceed 67.5 million tons in MY13/14, up from the estimated 60 million tons in MY12/13. The soybean price support program has not yet been announced for MY13/14.

## **Executive Summary:**

MY13/14 soybean production is forecast at 11.8 million tons, unchanged from the previous estimate (CH13052). MY13/14 rapeseed and peanut production is forecast at 13.2 million tons and 16 million tons, respectively, unchanged from the September data. Driven by a supply gap between recovering animal husbandry feed demands and estimated falling soybean stocks, soybean imports are forecast to exceed 67.5 million tons in MY13/14, up from the estimated 60 million tons in MY12/13. Imports of rapeseed products are expected to grow in MY13/14 to compensate for a stagnant domestic supply. The soybean price support program has not yet been announced for MY13/14.

(Note: 2013 exchange rate \$1=RMB 6.1)

### **MY13/14 soybean production forecast at 11.8 million tons**

Late October reports from the nearly completed harvest confirm lower than expected MY13/14 soybean production, due to area and yield factors, as reported in CH13052. In an October 21st report, The China National Grain and Oils Information Center (CNGOIC) estimated MY13/14 soybean production at 12.5 million tons, down from 13.05 million tons in the previous year, while other major sources forecast a production range between 11.34 million tons and 12 million tons.

According to CNGOIC, farmers are waiting to sell their crop pending the government's announcement of the soybean price support level (see next "Soybean Price Policy").

Currently, the purchase price ranges from RMB4,250 to RMB4,600 per ton in Heilongjiang.

### **Soybean Support Policy**

While the Chinese government has already announced 2013 price support levels for wheat, rice, rapeseed, cotton and corn, a support price for soybeans has not yet been provided. According to China Grain Net, farmers anticipate the government will provide a support price of RMB4,800 per ton. This figure is up from RMB4,600 per ton in 2012 and above the current market price of RMB4,250 to 4,600 per ton. The government typically announces the annual price support to northeastern soybean producers in late October.

Government price support systems were implemented several years ago to stimulate low farming productivity in order to meet policy priorities of grain self-sufficiency. More recently, though, China's policy makers agree the current price support policy is not sustainable and distorts market prices, elevating domestic prices above world prices, stimulates imports and increases the financial costs to the government.

For example, the table below reflects China's import volumes over the past two years for domestic commodities that benefit from price support payments. The figures show that corn and rice imports have surged dramatically and all other categories have also increased thus raising China's profile as a major agricultural importer.

## Imports of Major Agricultural Products in 2011 and 2012 (in 1,000 tons)

Major Ag Products	Soybeans	Rapeseed	Corn	Rice	Wheat	DDGS	Cotton	Sugar
2011	52,634	1,262	1,753	578	1,248	1,686	3,365	2,920
2012	58,380	2,930	5,207	2,344	1,279	2,382	5,137	3,746
Increase	5,746	1,668	3,454	1,766	31	696	1,772	826
Growth Rate (%)	11	132	197	306	2	41	53	28

Source: Global Trade Atlas

In addition, the high domestic floor price has reportedly also driven some imports into state reserves. According to an October 28<sup>th</sup> article in the 21<sup>st</sup> Century Daily newspaper, a portion of the 5 million tons of rapeseed purchased by the government for reserve in MY13/14 was imported rapeseed as the floor price was about RMB500 per ton higher than the import price.

With food security a policy target for the next 10 to 20 years, overhauling the current agricultural support policy and formulating a new support/subsidy system faces some serious challenges. For instance, the government lacks fundamental rural household accounting data, such as farmland and crop mix, etc. In addition, questions remain about what should be the appropriate basis upon which a direct subsidy will be determined for each crop and household, such as sales value, acreage or production? Implementation of the new policy also faces an enormous administrative hurdle given the millions of mini-scale households engaged in agricultural production.

In considering new policies which still address policy priorities of maintaining grain security and protecting farmer's income, it seems likely policymakers will target crops with the strongest comparative advantage for continued support. Lower profit crops, such as soybeans, which also have strong alternative import sources, may rank as less of a priority. Furthermore, a continuing decline in domestic soybean production means there is less direct domestic competition with imports for crushing. Industry sources relay that the soybean price support program might be abandoned after MY13/14 in favor of a target price program.

### Rapeseed

Post's MY13/14 rapeseed production forecast of 13.2 million tons remains unchanged. In its mid-October report, CNGOIC estimated MY13/14 rapeseed production at 14.4 million tons based on planted area at 7.51 million hectares, both up from the 14 million tons and 7.43 million hectares in the previous year. Based on an analysis of China's rapeseed product imports and price changes for rapeseed products, many Chinese industry insiders believe the official domestic rapeseed production statistics have been over-estimated for the past two years.

### Peanuts

Post's MY13/14 peanut production forecast of 16 million tons remains unchanged from our previous report. CNGOIC maintains its record estimate of 17 million tons for MY13/14 peanut production, based on planted area of 4.71 MHa (up 1.5 percent) and yield at 3,609Kg/Ha (up 0.3 percent).

## **Auction of soybean stocks suspended**

Reportedly, the government auction of soybean reserves on October 17 was the final auction (more details in GAIN13052). As of October 17, 2.43 million tons of reserve stock had been sold at nine auctions, accounting for 54 percent of the total soybeans offered. The impact on soybean imports from the weekly state sales should be limited because the old stocks were either sold to inland crushers that only process domestic soybeans, or to food companies whose products cannot utilize imported GMO soybeans. The soy stocks from the 2010 harvest were sold at an average price of RMB4,021 per ton in the auction held on October 17, slightly lower than the estimated price for imported soybeans (at an average RMB4,398 per ton in September). Based on industry sources, the current state soybean reserve is estimated at 3.5 million tons.

## **Consumption continues to recover**

Based on National Statistics Bureau (NSB) data, total meat production went up by 1.3 percent to 58.03 million tons in the first three quarters of 2013, despite several animal disease related food safety incidents that reduced pork and poultry consumption in the first half of 2013. Of the total, pork production reached 38.31 million tons, up 2.1 percent over the previous year and swine inventory also increased to 475.41 million heads, up 1.5 percent over the previous year.

Sources indicate that China's feed production declined by 12 to 13 percent in the first half of 2013, compared to the same period in 2012, as stagnant demand for animal products and low profits in the animal husbandry sectors, stymied growth. However, after July, the situation improved. China Feed Industry Association data shows total feed production for Sichuan Province stood at 7.88 million tons in the first nine months of 2013, up 7.4 percent over the previous year. The dynamic growth trend continued in the third quarter with total production at 2.92 million tons, up 8.2 percent over the previous year. In Guangdong, feed production in the third quarter was still 1.7 percent lower than the previous year, however, the production is expected to recover in the fourth quarter in response to high consumption of animal products during traditional festivals.

## **MY13/14 soybean imports may exceed 67.5 million tons**

China's soybean import growth in MY12/13 leveled at 59.9 million tons, slightly higher than the 59.3 million tons in the previous year. The low growth rate is related to large imports in MY11/12, adequate government stocks and high international prices, which together reduced import demand in MY12/13.

For MY13/14, because the carry in stocks are believed to be relatively low, if the international price remains reasonable, buyers may move to increase imports to rebuild stocks for the huge crush sector which is estimated at 130 million tons per year (as of the end of 2013). An industry report estimated total crush capacity of 139 million tons per year, if including the newly added capacity (5.1 million tons per year in operation in mid of 2013) by China State Grain Reserve Corp and Bohi Industry Group. Thus, soybean imports may exceed Post's previously forecast data of 67.5 million tons in MY13/14.

## **Rapeseed product imports grow**

MY12/14 rapeseed imports surged to 3.4 million tons, up 30.5 percent over the previous year. Meanwhile rapeseed oil imports increased to 1.23 million tons from the 943,000 tons in MY11/12. Based on this, a net increase of 850,000 tons of rapeseed oil (oil converted from imported rapeseed is included) was added to China's market in MY12/13, though soybean oil imports declined by about 90,000 tons. This implies vegetable oil demand remains one of the driving forces for China's oilseed imports even when the protein meal demand growth is affected by weak consumption of animal products. MY13/14 rapeseed imports are likely to be strong given domestic production growth remains low. However, higher rapeseed product imports are not expected to impact soybean imports as rapeseed product imports are compensating for stagnant domestic rapeseed production.